

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF HART	County OCEANA
Audit Date 6/30/05	Opinion Date 9/21/05	Date Accountant Report Submitted to State: 10/26/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name)

Brickley DeLong, PLC

Street Address

500 Terrace Plaza, P.O. Box 999

City

Muskegon

State

MI

ZIP

49443-0999

Accountant Signature

Brickley DeLong, PLC

Date

10/26/05

City of Hart
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2005

City of Hart
LIST OF ELECTED AND APPOINTED OFFICIALS
June 30, 2005

Mayor Robert Steen

Mayor Pro Tem Betty Root

City Council..... Brett Beachum
Steve Hegedus
Susan Krajewski
Ron LaPorte
Mickey Vanbergen

APPOINTED OFFICIALS

City Manager Stanley Rickard

Clerk/Treasurer Louise Stevens

City of Hart

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This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. This report consists of a series of financial statements for the City of Hart as of June 30, 2005. The City of Hart's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

At the close of the fiscal year the City of Hart had total assets of \$25,337,520 and total liabilities of \$8,419,098 leaving net assets of \$16,918,422. Of this amount, \$6,969,147 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors. The City has heavy infrastructure investments in hydro electric, water, sewer, and wastewater treatment facilities evidenced by business-type total net assets of \$15,809,739, about 93% of total net assets.

Business-type functions had an operating loss of \$53,614 comprised of \$277,596 hydro income and a \$331,210 loss in water/sewer operations. Utility services benefited from rate adjustments granted in late 2003 which mitigated the overall net operating loss.

The City ended the year with a deficit in one non-major fund. The Creeks Special Assessment District Fund had a deficit of \$43,674. This deficit will be eliminated through collection of special assessments, future operations and operating transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include hydro electric and water and sewer services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories - governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City of Hart has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its hydro electric and water and sewer operations. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

City of Hart's Net Assets

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2005 the City's net assets from governmental activities totaled \$1,108,683; and \$15,809,739 from business-type activities, for a government-wide net asset total of \$16,918,422.

In examining composition of assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects.

Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
<u>Assets</u>						
Current assets and						
other assets	\$ 1,313,836	\$ 1,608,429	\$ 7,472,954	\$ 7,526,609	\$ 8,786,790	\$ 9,135,038
Capital assets	1,100,578	1,010,615	15,450,152	15,817,776	16,550,730	16,828,391
Total assets	2,414,414	2,619,044	22,923,106	23,344,385	25,337,520	25,963,429
<u>Liabilities</u>						
Long-term liabilities						
Outstanding	1,177,746	1,242,402	6,262,849	6,695,154	7,440,595	7,937,556
Other liabilities	127,985	211,132	850,518	816,009	978,503	1,027,141
Total liabilities	1,305,731	1,453,534	7,113,367	7,511,163	8,419,098	8,964,697
<u>Net assets</u>						
Invested in capital assets,						
net of related debt	790,554	652,102	8,710,439	9,186,095	9,500,993	9,838,197
Restricted	73,694	155,387	374,588	453,331	448,282	608,718
Unrestricted	244,435	358,021	6,724,712	6,193,796	6,969,147	6,551,817
Total net assets	\$ 1,108,683	\$ 1,165,510	\$ 15,809,739	\$ 15,833,222	\$ 16,918,422	\$ 16,998,732

City of Hart's Changes in Net Assets

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets.

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues						
Charges for services	\$ 219,704	\$ 315,508	\$ 4,063,022	\$ 3,801,099	\$ 4,282,726	\$ 4,116,607
Operating grants and Contributions	154,549	198,839	-	-	154,549	198,839
Capital grants and Contributions	78,697	315,600	126,207	330,615	204,904	646,215
General revenues						
Property taxes	701,528	692,500	-	-	701,528	692,500
Franchise fees	14,421	4,443	-	-	14,421	4,443
Grants and contributions not restricted to specific programs	197,706	201,042	-	-	197,706	201,042
Unrestricted investment Earnings	9,959	9,685	211,786	203,805	221,745	213,490
Other	2,107	(41,094)	(45,934)	226,657	(43,827)	185,563
Total revenues	1,378,671	1,696,523	4,355,081	4,562,176	5,733,752	6,258,699
Expenses:						
General government	245,076	237,573	-	-	245,076	237,573
Public safety	467,670	440,369	-	-	467,670	440,369
Public works	515,976	487,727	-	-	515,976	487,727
Community and economic Development	19,755	3,676	-	-	19,755	3,676
Culture and recreation	85,053	86,936	-	-	85,053	86,936
Interest on long-term debt	56,934	52,475	-	-	56,934	52,475
Hydro	-	-	2,605,974	2,291,723	2,605,974	2,291,723
Water and Sewer	-	-	1,817,624	1,789,139	1,817,624	1,789,139
Total expenses	1,390,464	1,308,756	4,423,598	4,080,862	5,814,062	5,389,618
Change in net assets before Transfers	(11,793)	387,767	(68,517)	481,314	(80,310)	869,081
Transfers	(45,034)	(56,288)	45,034	56,288	-	-
Change in net assets	(56,827)	331,479	(23,483)	537,602	(80,310)	869,081
Net assets - July 1	1,165,510	834,031	15,833,222	15,295,620	16,998,732	16,129,651
Net assets - June 30	\$ 1,108,683	\$ 1,165,510	\$ 15,809,739	\$ 15,833,222	\$ 16,918,422	\$ 16,998,732

At year-end, on June 30, 2005, net assets decreased by \$56,827 in governmental activities and \$23,483 in business-type activities, a decrease of \$80,310 government-wide.

Governmental Activities

Revenues declined in fiscal year 2005 due to reduced charges for services and capital grants and contributions. The methodology for billing vehicle usage to other departments was changed resulting in lower charges for services. A light capital improvement program in fiscal year 2005 reduced the capital grants and contributions as the City had no significant new special assessments. The City retained professional services in planning/zoning services which increased community development expenses. Cable franchise fees instituted during fiscal year 2005 increased revenues over 2004.

Business-type Activities

Operating revenues in the Hydro and Water/Sewer funds totaled \$4,064,834 comprised of \$2,849,464 in Hydro and \$1,215,370 in Water/Sewer. Operating revenues increased in both funds due to higher usage and the effects of a rate increase in the prior year. Subtracting operating expenses, Hydro experienced operating income of \$277,596 and Water/Sewer posted an operating loss of \$331,210 for a net operating loss for business-type activities of \$53,614. Expenses also increased in both funds due to higher usage.

In fiscal 2005, the Hydro Fund forgave loans to the Water/Sewer and Local Streets funds in the amount of \$507,033 and transferred \$190,000 to the Water/Sewer Fund to partially cover operating losses which primarily contributed to a decrease in net assets of \$444,284 in the Hydro Fund.

Non-operating revenues in the Water/Sewer Fund reversed the \$331,210 operating loss. The significant non-operating revenues were as follows: special assessments of \$126,207, investment income including interest earned from special assessments within the agricultural renaissance zone of \$190,040, forgiveness of debt from the Hydro Fund, \$492,979, and the \$190,000 transfer from the Hydro Fund. Therefore, Water/Sewer net assets increased by \$420,801 in fiscal 2005.

Overall, net assets for business-type activities decreased by \$23,483 in the year ending June 30, 2005. The major reasons for this decrease in net income as compared to last year were a one-time sale of land and a large amount of new special assessments in the prior year.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this discussion and analysis, the City of Hart uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2005 fiscal year, the governmental funds reported a combined fund balance of \$195,093. Of this number, \$128,861 represents the unreserved fund balance, comprised of \$78,038 in the General Fund and \$50,823 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances of \$15,274, debt service of \$21,635, and capital projects of \$29,323.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, assessments, elections, legal, recreation, garbage collection, boards and commissions, and other minor functions. The General Fund ended the year with a fund balance of \$93,312, a \$20,980 decrease from fiscal 2004. The unreserved General Fund balance was \$78,038. The health of the General Fund may be measured by the ratio of unreserved General Fund balance to annual General Fund expenditures. Unreserved fund balance represents 8% of the General Fund expenditures.

General Fund revenues exceeded expenses by \$83,805 before transfers. After transfers, the net change in fund balance was a decrease of \$20,980. Combined with a June 30, 2004 balance of \$114,292, the General Fund had a June 30, 2005 balance of \$93,312 or 9% of total expenditures of \$1,017,257. Overall, General Fund revenues decreased by \$18,500 in fiscal year 2005, and expenses increased by \$29,227.

The net change in fund balance for all governmental funds was a decrease of \$69,679.

Proprietary funds

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Rate studies in 2003 concluded that operating losses were occurring in the Water/Sewer Fund and rate adjustments were needed to correct the imbalance. The City adopted new rates during fiscal year 2004. This is the first full year that these rates were effective. Combining rate and usage changes, business-type revenues (electric, water, sewer) increased by \$258,084 or 7%. Hydro Fund revenues increased by \$135,346 (5%), and water/sewer revenues increased by \$122,738 (11%).

Other important events in year-end June 30, 2005 were loans forgiven by the Hydro Fund to the Water/Sewer Fund in the amount of \$492,979 and the gift of \$190,000 from Hydro to Water/Sewer to correct a budget imbalance. These transactions allowed the Water/Sewer Fund to increase net assets but caused a commensurate reduction in Hydro Fund net assets.

Budget Analysis – General Fund

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy. The year ending June 30, 2005 was typical. Budget amendments were made to charges for services and transfers out by about \$73,860 as the City intended to collect monies in the General Fund from the Hart District Library to finance the library's construction and debt service. The City also decreased the charges for services budget by about \$27,000 to reflect a change in methodology for billing equipment rentals to other funds.

Budget to actual variations occurred in the ordinary course of operations. Variations occurred in the charges for services and transfers out budgets as the City decided to record charges to the Hart District Library directly in the Building Authority rather than passing them through the General Fund. Variations also occurred in the local intergovernmental revenue and capital outlay as the City recorded an unbudgeted transfer of a parking lot paved by the TIFA to the General Fund.

Capital Asset Administration

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 totaled \$16,550,730 (net of accumulated depreciation). Investment in capital assets includes land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture and equipment.

The most significant capital improvements during the fiscal year 2005 was the resurfacing of the City-owned "Post Office" parking lot at a cost of \$31,710 financed by the Tax Increment Financing Authority, the purchase of a water control system for \$105,432 in the Water/Sewer Fund, and the purchase of a dam automation system for \$198,057 in the Hydro Fund.

Debt Administration

As of June 30, 2005 the City had outstanding long-term liabilities of \$8,045,795 consisting of general obligation bonds, Michigan Transportation Fund bonds, special assessment bonds, installment purchase agreements, compensated absences, revenue bonds, and contractual obligations.

These liabilities lie predominately in the enterprise funds in the amount of \$6,804,350, approximately 85% of the total. The largest source of debt consists of a contractual obligation in the amount of \$4,050,000 to Oceana County for the 2002 wastewater treatment plant expansion. The only new debt issued by the City during the year was \$108,000 to finance the purchase of a new water control system.

On the governmental side of the City, the largest source of debt is outstanding Building Authority Bonds in the amount of \$850,000 for the library. No new debt was issued in the governmental funds.

Annual principal and interest payments for all long-term debt for fiscal year 2006 are \$942,600; in fiscal 2007, \$928,200; and in fiscal 2008, \$1,031,100.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

State-shared revenues appear to be steady for fiscal year 2006 with revenues projected at \$196,000 as the State of Michigan agreed to maintain fiscal year 2005 funding levels.

Property tax revenues increased about 1.6% during fiscal year 2005. The City expects a similar increase in 2006.

The street improvement millage rate of approximately 2 mills was reinstated by the voters in May 2005 for another 5-year term insuring revenues for street rehabilitation in the amount of about \$75,000 annually.

Garbage fees increased in fiscal 2006 by \$2 to \$12 per month adding about \$18,000 in General Fund revenue. Despite the increase, projected fees collected next year (\$112,000) will still not cover the total cost of garbage service (\$139,000).

The General Fund budget for expenditures in fiscal year 2006 is similar to fiscal year 2005.

Based on a comprehensive study, utility rates were increased in December 2003 and again in July 2005 to correct an ongoing imbalance between revenues and expenditures particularly in the Water/Sewer Fund completing a 3-year rate adjustment program. Residential rates for electricity, water and sewer services were increased by 2.5%, 5.8%, and 3.4% respectively in July of 2005.

Engineering studies continue in the hydro electric, water and sewer areas. These studies will draw conclusions about the need for infrastructure improvements and make recommendations targeting voltage upgrades in hydro electric; lift stations, water main and sewer line, and elevated tank improvements in water/sewer. The financial impact of these contemplated improvements will be substantial, stressing the need to develop a financial plan that will successfully implement the capital improvement program.

In the next two years, final installment payments of \$126,738 will be made on \$445,500 of original debt issued.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-873-2488. Hart City Hall, located at 407 State Street, Hart, MI 49420. Hart City Hall is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 21, 2005

City Council
City of Hart
Hart, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hart as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hart's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hart as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i through vii and 32, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

City Council
September 21, 2005
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hart's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

City of Hart
STATEMENT OF NET ASSETS
June 30, 2005

ASSETS				Component
	Governmental	Business-type	Total	Unit
	activities	activities		Tax Increment
				Finance
				Authority
CURRENT ASSETS				
Cash and investments	\$ 153,914	\$ 1,440,388	\$ 1,594,302	\$ 101,281
Receivables				
Trade	25,812	520,781	546,593	-
Special assessments	-	327,000	327,000	-
Notes	35,000	-	35,000	-
Internal balances	(30,900)	30,900	-	-
Due from other governmental units	102,065	-	102,065	3,000
Inventories	-	282,300	282,300	-
Total current assets	285,891	2,601,369	2,887,260	104,281
NONCURRENT ASSETS				
Restricted assets	-	374,588	374,588	-
Capital assets, net				
Nondepreciable	9,315	234,542	243,857	-
Depreciable	1,091,263	15,215,610	16,306,873	-
Bond issue costs, net	42,812	191,473	234,285	-
Special assessments, less current portion	170,133	4,305,524	4,475,657	-
Note receivable, less current portion	815,000	-	815,000	-
Total noncurrent assets	2,128,523	20,321,737	22,450,260	-
Total assets	2,414,414	22,923,106	25,337,520	104,281
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	35,865	235,039	270,904	-
Customer deposits	-	33,230	33,230	-
Deferred revenue	20,400	-	20,400	-
Bonds, capital leases and contracts, due within one year	63,700	541,500	605,200	-
Accrued interest, due within one year	8,020	40,749	48,769	-
Total current liabilities	127,985	850,518	978,503	-
NONCURRENT LIABILITIES				
Bonds, capital leases and contracts, less amounts due within one year	1,096,324	6,198,213	7,294,537	-
Compensated absences, less amounts due within one year	81,422	64,636	146,058	-
Total noncurrent liabilities	1,177,746	6,262,849	7,440,595	-
Total liabilities	1,305,731	7,113,367	8,419,098	-
NET ASSETS				
Invested in capital assets, net of related debt	790,554	8,710,439	9,500,993	-
Restricted for:				
Streets	30,756	-	30,756	-
Capital projects	29,323	-	29,323	-
Debt service	13,615	374,588	388,203	-
Unrestricted	244,435	6,724,712	6,969,147	104,281
Total net assets	\$ 1,108,683	\$ 15,809,739	\$ 16,918,422	\$ 104,281

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF ACTIVITIES
For the year ended June 30, 2005

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government			Tax Increment Finance Authority
					Governmental activities	Business-type activities	Total	
Primary government								
Governmental activities								
General government	\$ 245,076	\$ 118,516	\$ 2,100	\$ 31,710	\$ (92,750)	\$ -	\$ (92,750)	\$ -
Public safety	467,670	8,196	6,672	-	(452,802)	-	(452,802)	-
Public works	515,976	19,079	145,777	6,834	(344,286)	-	(344,286)	-
Community and economic development	19,755	-	-	-	(19,755)	-	(19,755)	-
Culture and recreation	85,053	73,913	-	-	(11,140)	-	(11,140)	-
Interest on long-term debt	56,934	-	-	40,153	(16,781)	-	(16,781)	-
Total governmental activities	1,390,464	219,704	154,549	78,697	(937,514)	-	(937,514)	-
Business-type activities:								
Hydro	2,605,974	2,847,905	-	-	-	241,931	241,931	-
Water and sewer	1,817,624	1,215,117	-	126,207	-	(476,300)	(476,300)	-
Total business-type activities	4,423,598	4,063,022	-	126,207	-	(234,369)	(234,369)	-
Total primary government	\$ 5,814,062	\$ 4,282,726	\$ 154,549	\$ 204,904	(937,514)	(234,369)	(1,171,883)	-
Component unit:								
Tax Increment Finance Authority								
Community and economic development	\$ 71,023	\$ -	\$ -	\$ -	-	-	-	(71,023)
General revenues:								
Taxes								
Property taxes, levied for general purposes					630,631	-	630,631	30,322
Property taxes, levied for specific purposes					70,897	-	70,897	-
Franchise fees					14,421	-	14,421	-
Grants and contributions not restricted to specific programs					197,706	-	197,706	-
Unrestricted investment earnings					9,959	211,786	221,745	1,730
Other					21,719	1,812	23,531	-
Special item—gain (loss) on sale of asset					(19,612)	(47,746)	(67,358)	-
Transfers					(45,034)	45,034	-	-
Total general revenues, special items, and transfers					880,687	210,886	1,091,573	32,052
Change in net assets					(56,827)	(23,483)	(80,310)	(38,971)
Net assets at July 1, 2004					1,165,510	15,833,222	16,998,732	143,252
Net assets at June 30, 2005					\$ 1,108,683	\$ 15,809,739	\$ 16,918,422	\$ 104,281

The accompanying notes are an integral part of this statement.

City of Hart
BALANCE SHEET
 Governmental Funds
 June 30, 2005

	General Fund	Other governmental funds	Total governmental funds
ASSETS			
Cash and investments	\$ 18,322	\$ 135,592	\$ 153,914
Receivables			
Accounts	22,789	3,023	25,812
Special assessments	-	170,133	170,133
Due from other governmental units	62,792	39,274	102,066
Advances to other funds	15,274	-	15,274
Total assets	\$ <u>119,177</u>	\$ <u>348,022</u>	\$ <u>467,199</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 16,154	\$ 10,001	\$ 26,155
Accrued liabilities	9,711	-	9,711
Due to other funds	-	2,500	2,500
Deferred revenue	-	190,066	190,066
Advances from other funds	-	43,674	43,674
Total liabilities	25,865	246,241	272,106
Fund balances (deficits)			
Reserved for:			
Advances	15,274	-	15,274
Debt service	-	21,635	21,635
Capital projects	-	29,323	29,323
Unreserved			
General fund	78,038	-	78,038
Special revenue funds	-	94,497	94,497
Capital projects funds	-	(43,674)	(43,674)
Total fund balances (deficits)	93,312	101,781	195,093
Total liabilities and fund balances	\$ <u>119,177</u>	\$ <u>348,022</u>	\$ <u>467,199</u>

The accompanying notes are an integral part of this statement.

City of Hart
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2005

Total fund balance—governmental funds	\$	195,093
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 1,798,920	
Accumulated depreciation	<u>(698,342)</u>	1,100,578

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	50,162	
Accumulated amortization	<u>(7,350)</u>	42,812

Certain receivables in governmental activities are not available to pay for current period
expenditures and are not reported in the governmental funds.

850,000

Long-term liabilities in governmental activities are not due and payable in the current period
and are not reported in the governmental funds.

Bonds and contracts payable	(1,160,024)	
Compensated absences	<u>(81,422)</u>	(1,241,446)

Accrued interest in governmental activities is not reported in the governmental funds.

(8,020)

Special assessment revenue is not recognized until it is receivable in the current
period and, therefore, is shown as deferred revenue in the governmental funds

169,666

Net assets of governmental activities in the Statement of Net Assets

\$ 1,108,683

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2005

	General Fund	Other governmental funds	Total governmental funds
REVENUES			
Property taxes	\$ 632,119	\$ 70,897	\$ 703,016
Licenses and permits	16,625	-	16,625
Intergovernmental revenues			
State	197,706	145,777	343,483
Local	37,149	75,153	112,302
Charges for services	189,764	73,913	263,677
Fines and forfeitures	8,196	-	8,196
Investment earnings	8,421	1,538	9,959
Other	11,082	34,774	45,856
Total revenues	1,101,062	402,052	1,503,114
EXPENDITURES			
Current			
General government	211,816	-	211,816
Public safety	455,465	-	455,465
Public works	243,918	154,188	398,106
Community and economic development	19,746	-	19,746
Culture and recreation	16,965	68,726	85,691
Debt service			
Principal	28,489	55,000	83,489
Interest and fees	4,388	50,505	54,893
Capital outlay	36,470	182,789	219,259
Total expenditures	1,017,257	511,208	1,528,465
Excess of revenues over (under) expenditures	83,805	(109,156)	(25,351)
OTHER FINANCING SOURCES (USES)			
Transfers in	590	163,486	164,076
Transfers out	(106,081)	(117,083)	(223,164)
Proceeds from sale of fixed assets	706	-	706
Forgiveness of debt	-	14,054	14,054
Total other financing sources (uses)	(104,785)	60,457	(44,328)
Net change in fund balances	(20,980)	(48,699)	(69,679)
Fund balances at July 1, 2004	114,292	150,480	264,772
Fund balances at June 30, 2005	\$ 93,312	\$ 101,781	\$ 195,093

The accompanying notes are an integral part of this statement.

City of Hart
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2005

Net change in fund balances—total governmental funds:	\$	(69,679)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$	(86,090)	
Capital outlay		196,371	110,281

Proceeds from sale of fixed assets are reported as revenues in the governmental funds; proceeds are netted against net book value in the Statement of Activities and a net resulting gain or loss is recorded.		(20,318)
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Bond issuance costs are not capitalized and amortized in the governmental funds.		(3,068)
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Payments received on notes receivable are reported as revenues in the governmental funds; the payments are netted against notes receivable on the Statement of Net Assets.		(35,000)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		83,489
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Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		1,027
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Increases in the compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		967
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Governmental funds recognize special assessments as revenue as they become current; however, they are recognized in full when levied in the statement of net assets.		(124,526)
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Change in net assets of governmental activities	\$	(56,827)
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The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2005

ASSETS

	Business-type Activities - Enterprise Funds		
	Hydro	Water and Sewer	Total
CURRENT ASSETS			
Cash and investments	\$ 1,272,154	\$ 168,234	\$ 1,440,388
Receivables			
Accounts	390,081	130,700	520,781
Special assessments	-	327,000	327,000
Due from other funds	2,500	-	2,500
Inventories	227,495	54,805	282,300
Total current assets	1,892,230	680,739	2,572,969
NONCURRENT ASSETS			
Restricted assets	104,026	270,562	374,588
Capital assets, net			
Land	106,089	128,453	234,542
Utility systems	7,379,179	15,902,018	23,281,197
Furniture and equipment	392,308	271,444	663,752
Less accumulated depreciation	(3,814,357)	(4,914,982)	(8,729,339)
Net capital assets	4,063,219	11,386,933	15,450,152
Bond issuance costs, net of amortization	31,596	159,877	191,473
Special assessments, less current portion	-	4,305,524	4,305,524
Advances to other funds	277,882	-	277,882
Total noncurrent assets	4,476,723	16,122,896	20,599,619
Total assets	6,368,953	16,803,635	23,172,588
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	183,621	35,803	219,424
Accrued liabilities	17,415	38,949	56,364
Customer deposits	33,230	-	33,230
Bonds, capital leases and contracts, due within one year	57,400	484,100	541,500
Total current liabilities	291,666	558,852	850,518
NONCURRENT LIABILITIES			
Advances from other funds	-	249,482	249,482
Bonds, capital leases and contracts, less amounts due within one year	751,170	5,447,043	6,198,213
Compensated absences, less amounts due within one year	50,148	14,488	64,636
Total noncurrent liabilities	801,318	5,711,013	6,512,331
Total liabilities	1,092,984	6,269,865	7,362,849
NET ASSETS			
Invested in capital assets, net of related debt	3,254,649	5,455,790	8,710,439
Restricted for debt service	104,026	270,562	374,588
Unrestricted	1,917,294	4,807,418	6,724,712
Total net assets	\$ 5,275,969	\$ 10,533,770	\$ 15,809,739

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Proprietary Funds
 For the year ended June 30, 2005

	Business-type Activities - Enterprise Funds		
	Hydro	Water and Sewer	Total
REVENUES			
Charges for services	\$ 2,847,905	\$ 1,215,117	\$ 4,063,022
Other	1,559	253	1,812
Total operating revenues	2,849,464	1,215,370	4,064,834
OPERATING EXPENSES			
Administration	216,710	179,318	396,028
Operations	2,151,300	878,388	3,029,688
Depreciation and amortization	203,858	488,874	692,732
Total operating expenses	2,571,868	1,546,580	4,118,448
Operating income (loss)	277,596	(331,210)	(53,614)
NONOPERATING REVENUES (EXPENSES)			
Special assessments	-	126,207	126,207
Investment earnings	21,746	190,040	211,786
Interest expense	(34,106)	(271,044)	(305,150)
Total nonoperating revenue (expenses)	(12,360)	45,203	32,843
Income (loss) before contributions and transfers	265,236	(286,007)	(20,771)
Transfers in	-	249,088	249,088
Transfers out	(190,000)	-	(190,000)
Loss on disposal of fixed assets	(12,487)	(35,259)	(47,746)
Forgiveness of debt	(507,033)	492,979	(14,054)
Change in net assets	(444,284)	420,801	(23,483)
Total net assets at July 1, 2004	5,720,253	10,112,969	15,833,222
Total net assets at June 30, 2005	\$ 5,275,969	\$ 10,533,770	\$ 15,809,739

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2005

	Business-type Activities - Enterprise Funds		
	Hydro	Water and Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,844,609	\$ 1,185,885	\$ 4,030,494
Receipts from interfund services provided	70,443	2,436	72,879
Payments to suppliers	(2,003,511)	(800,590)	(2,804,101)
Payments to employees	(319,124)	(243,594)	(562,718)
Payments for interfund services used	(12,450)	(7,230)	(19,680)
Net cash provided by operating activities	579,967	136,907	716,874
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(190,000)	-	(190,000)
Transfers from other funds	-	249,088	249,088
Advances to other funds	(33,836)	-	(33,836)
Advances from other funds	-	(24,633)	(24,633)
Net cash provided by (used for) capital and related financing activities	(223,836)	224,455	619
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Special assessment collections	-	288,707	288,707
Proceeds from capital debt	-	108,000	108,000
Purchases of capital assets	(234,134)	(122,451)	(356,585)
Principal and interest paid on capital debt	(86,425)	(737,193)	(823,618)
Proceeds from sale of capital assets	4,849	1,000	5,849
Net cash used for capital and related financing activities	(315,710)	(461,937)	(777,647)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment earnings	21,746	190,040	211,786
Net increase (decrease) in cash and investments	62,167	89,465	151,632
Cash and investments at July 1, 2004	1,314,013	349,331	1,663,344
Cash and investments at June 30, 2005	<u>\$ 1,376,180</u>	<u>\$ 438,796</u>	<u>\$ 1,814,976</u>
Reconciliation of cash and investments to the Statement of Net Assets			
Cash and investments	\$ 1,272,154	\$ 168,234	\$ 1,440,388
Restricted assets	104,026	270,562	374,588
	<u>\$ 1,376,180</u>	<u>\$ 438,796</u>	<u>\$ 1,814,976</u>
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 277,596	\$ (331,210)	\$ (53,614)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization expense	203,858	488,874	692,732
Change in assets and liabilities			
Receivables, net	(4,855)	(14,747)	(19,602)
Internal balances	70,443	14,796	85,239
Inventories	(1,506)	951	(555)
Accounts payable	28,363	2,843	31,206
Customer deposits payable	3,570	-	3,570
Accrued liabilities	(4,119)	(6,845)	(10,964)
Compensated absences	6,617	(5,453)	1,164
Deferred revenue	-	(12,302)	(12,302)
Net cash provided by operating activities	<u>\$ 579,967</u>	<u>\$ 136,907</u>	<u>\$ 716,874</u>
Noncash financing activities			
Forgiveness of debt	(507,033)	492,979	(14,054)

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 June 30, 2005

	Private Purpose Trust Fund <u>Historic District Commission</u>	Agency Fund <u>Tax Collection Fund</u>
ASSETS		
Cash and investments	\$ <u>15,528</u>	\$ <u>-</u>
NET ASSETS		
Held in trust for benefits and other purposes	\$ <u>15,528</u>	\$ <u>-</u>

The accompanying notes are an integral part of this statement.

City of Hart
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 Fiduciary Funds
 For the year ended June 30, 2005

	Private Purpose Trust Fund <hr/> Historic District Commission <hr/>
ADDITIONS	
Investment earnings	\$ 127
Charges for services	<hr/> 528
Total additions	655
DEDUCTIONS	
Administrative expenses	<hr/> 2,156
Change in net assets	(1,501)
Net assets at July 1, 2004	<hr/> 17,029
Net assets at June 30, 2005	\$ <hr/> <hr/> 15,528

The accompanying notes are an integral part of this statement.

City of Hart
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Hart (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1. Reporting Entity

The City of Hart (City) is a municipal corporation governed by an elected mayor and a six-member City Council and is administered by a city manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended Component Unit

Building Authority. The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a debt service and capital projects fund.

Discretely Presented Component Unit

The discretely presented component unit reported by the City is the Tax Increment Finance Authority (TIFA). The TIFA board is appointed by the City Council, but the board, after appointments, operates as a separate entity. The TIFA board can authorize and issue debt independent from the City. The TIFA is presented as a governmental fund type.

Related Organization

The City of Hart's cemetery is a related organization which is excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. Audited financial statements are available from the cemetery.

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

2. Government-Wide and Fund Financial Statements—Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The City reports the following major proprietary funds:

The Water and Sewer Fund operates the City's sewage collection and treatment plant and water distribution systems.

The Hydro Fund purchases and distributes electrical services to the residents of the City.

Additionally, the City reports the following fund types:

The private purpose simple trust fund is used to account for resources held in trust for the Historic District Commission.

The agency fund accounts for assets held by the City on behalf of others in a fiduciary capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity

a. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and cash equivalents are maintained in its own cash account.

b. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Special assessments receivables are assessments on properties benefited by water, sewer and road improvement projects. The revenues generated from the special assessments are used to make the principal and interest payments on debt utilized to finance those projects.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes. Taxes levied on July 1 are due without penalty on or before August 31. The property taxes attach as an enforceable lien on property as of July 1. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the City. Since substantially all City property taxes levied are current receivables, tax revenues are recognized when levied.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

The 2004 state taxable value for real/personal property of the City totaled approximately \$46,673,000 of which approximately \$1,251,000 was captured by the TIFA. The ad valorem taxes levied consisted of 12.68 mills for operation and 1.95 mills for street improvements. These amounts are recognized in the respective General Fund and Street Improvements Fund with captured amounts shown in the TIFA component unit.

c. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

d. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

e. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has elected to capitalize infrastructure assets using the prospective approach, from fiscal year 2004 forward.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20-50
Buildings	30-50
Public domain infrastructure	20-30
System infrastructure and improvements	15-50
Vehicles and equipment	5-10

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

f. Compensated Absences

The City has established an “earned time off” (ETO) policy. ETO accumulates up to 32 hours per month, based on employee length of service. Maximum accumulation of 840 hours of general employees and 900 hours for police officers is allowed. ETO over the maximum accumulation is paid by the City at 50 percent of the excess accumulation at the close of each fiscal year. Upon non-disciplinary termination of employment, 75 percent of the accumulated ETO is paid.

g. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

h. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

1. Budgetary Information—Continued

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second Tuesday in June, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

2. Excess of Expenditures Over Appropriations

For the year ended June 30, 2005, due to an audit adjustment actual expenditures exceeded appropriations for capital outlay in the General Fund by \$31,700. The overexpenditure was funded with available fund balance.

3. Fund Deficits

As of June 30, 2005, the Creeks Drive Fund had an accumulated deficit of \$43,674. The deficit will be eliminated through the collection of special assessments, future operations and operating transfers.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2005, the City had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's Rating	Percent
Money market funds	\$ 213,911	34	AAAm	92.7%
External investment pool	<u>16,963</u>	<u>14</u>	not rated	<u>7.3</u>
Total fair value	<u>\$ 230,874</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>33</u>		

The City voluntarily invests certain excess funds in an external investment pool (Pool). The fair value of the City's investments is the same as the value of the Pool. The Pool is not regulated nor is it registered with the SEC.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE C—DEPOSITS AND INVESTMENTS—CONTINUED

Interest rate risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. The City does not have a concentration of credit risk policy. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2005, \$1,604,761 of the City's bank balance of \$1,928,973 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

3. Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2005, restricted cash and investments in the Enterprise funds are restricted as follows:

Water and Sewer Fund	
Bond reserve fund	\$ 256,158
Bond and interest redemption fund	14,404
Hydro Fund	
Bond reserve fund	95,000
Bond and interest redemption	<u>9,026</u>
	<u>\$ 374,588</u>

NOTE D—NOTE RECEIVABLE

The Building Authority Capital Projects Fund sold a building that it constructed to Hart District Library through a capital lease. The agreement requires annual payments of \$35,000 to \$70,000 plus interest at rates varying from 3.5 percent to 5 percent through June 2022.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,315	\$ -	\$ -	\$ 9,315
Capital assets, being depreciated:				
Land improvements	-	31,710	-	31,710
Buildings and improvements	568,825	-	-	568,825
Furniture and equipment	709,181	2,275	60,047	651,409
Infrastructure	<u>375,275</u>	<u>162,386</u>	<u>-</u>	<u>537,661</u>
Total capital assets being depreciated	1,653,281	196,371	60,047	1,789,605
Less accumulated depreciation:				
Land improvements	-	951	-	951
Buildings and improvements	282,176	6,210	-	288,386
Furniture and equipment	369,805	58,619	39,729	388,695
Infrastructure	<u>-</u>	<u>20,310</u>	<u>-</u>	<u>20,310</u>
Total accumulated depreciation	<u>651,981</u>	<u>86,090</u>	<u>39,729</u>	<u>698,342</u>
Total capital assets, being depreciated, net	<u>1,001,300</u>	<u>110,281</u>	<u>20,318</u>	<u>1,091,263</u>
Capital assets, net	<u>\$ 1,010,615</u>	<u>\$ 110,281</u>	<u>\$ 20,318</u>	<u>\$ 1,100,578</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 234,542	\$ -	\$ -	\$ 234,542
Capital assets, being depreciated:				
Hydro system	7,163,818	234,134	18,773	7,379,179
Water system	2,985,673	105,432	7,042	3,084,063
Sewer system	12,818,272	10,039	10,356	12,817,955
Furniture and equipment	<u>713,793</u>	<u>6,980</u>	<u>57,021</u>	<u>663,752</u>
Total capital assets, being depreciated	23,681,556	356,585	93,192	23,944,949
Less accumulated depreciation:				
Hydro system	3,423,343	172,451	3,503	3,592,291
Water system	1,438,969	84,156	4,567	1,518,558
Sewer system	2,846,030	371,755	4,350	3,213,435
Furniture and equipment	<u>389,980</u>	<u>42,248</u>	<u>27,173</u>	<u>405,055</u>
Total accumulated depreciation	<u>8,098,322</u>	<u>670,610</u>	<u>39,593</u>	<u>8,729,339</u>
Total capital assets, being depreciated, net	<u>15,583,234</u>	<u>(314,025)</u>	<u>53,599</u>	<u>15,215,610</u>
Capital assets, net	<u>\$15,817,776</u>	<u>\$ (314,025)</u>	<u>\$ 53,599</u>	<u>\$15,450,152</u>

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE E—CAPITAL ASSETS—Continued

Governmental activities:

Depreciation expense was charged to functions as follows:

General government	\$ 14,797
Public safety	11,486
Public works	52,831
Culture and recreation	<u>6,976</u>
	<u>\$ 86,090</u>

Business-type activities:

Depreciation expense was charged to functions as follows:

Hydro	\$ 201,225
Water and sewer	<u>469,385</u>
	<u>\$ 670,610</u>

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue, which represented unavailable and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 169,666	\$ -
Camping fees	<u>-</u>	<u>20,400</u>
	<u>\$ 169,666</u>	<u>\$ 20,400</u>

NOTE G—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Hydro Fund	Nonmajor governmental funds	\$ <u>2,500</u>	Operations

Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Water and Sewer Fund	\$ 15,274	Operations
Hydro Fund	Water and Sewer Fund	234,208	Operations
Hydro Fund	Nonmajor governmental funds	<u>43,674</u>	Operations
		<u>\$ 293,156</u>	

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE G—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS—Continued

Interfund transfers:

	General Fund	Transfers in Nonmajor governmental funds	Water and Sewer Fund	Total	Purpose
<u>Transfers out</u>					
General Fund	\$ -	\$ 49,060	\$ 57,021	\$ 106,081	Operations subsidy
Nonmajor governmental funds	590	114,426	2,067	117,083	Operations subsidy and debt service
Hydro Fund	-	-	190,000	190,000	Operations subsidy
	<u>\$ 590</u>	<u>\$ 163,486</u>	<u>\$ 249,088</u>	<u>\$ 413,164</u>	

The Hydro Fund forgave advances of \$492,979 to the Water and Sewer Fund and \$14,054 to the Local Street Fund during the year ended June 30, 2005.

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2005.

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Due within one year
Governmental activities:					
General obligation bonds	\$ 970,000	\$ -	\$ 40,000	\$ 930,000	\$ 40,000
Michigan Transportation Fund bonds	80,000	-	20,000	60,000	20,000
Special assessment bonds	166,454	-	-	166,454	1,300
Installment purchase agreements	27,059	-	23,489	3,570	2,400
Compensated absences	82,389	-	967	81,422	-
Governmental activity long-term liabilities	<u>\$ 1,325,902</u>	<u>\$ -</u>	<u>\$ 84,456</u>	<u>\$ 1,241,446</u>	<u>\$ 63,700</u>
Business-type activities:					
Special assessment bonds	\$ 553,546	\$ -	\$ 20,000	\$ 533,546	\$ 18,700
Revenue bonds	2,240,000	-	205,000	2,035,000	210,000
Contractual obligations	4,335,000	-	285,000	4,050,000	295,000
Installment purchase agreements	21,635	108,000	8,467	121,168	17,800
Compensated absences	63,473	1,163	-	64,636	-
Business-type activity long- term liabilities	<u>\$ 7,213,654</u>	<u>\$ 109,163</u>	<u>\$ 518,467</u>	<u>\$ 6,804,350</u>	<u>\$ 541,500</u>

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance <u>June 30, 2005</u>
Governmental activities	
General obligation bonds:	
\$950,000 Building Authority Bonds, series 2003 due in annual installments of \$35,000 to \$70,000 through June 2022; interest varying from 3.5% to 5%	\$ 850,000
\$85,000 General Obligation Bonds, series 2004 due in annual installments of \$5,000 to \$10,000 through September 2013; interest at rates varying from 3.2% to 4%	<u>80,000</u> 930,000
Michigan Transportation Fund bonds:	
\$250,000 Transportation Fund Bonds of 1993 due in annual installments of \$20,000 through August 2007; interest at 5.8%	60,000
Special assessment bonds:	
\$166,454 Special Assessment bonds, series 2004 due in annual installments of \$1,300 to \$27,300 through September, 2013; interest at rates varying from 3.2% to 4%	166,454
Installment purchase agreements:	
\$11,474 Note payable to bank due in semi-annual installments including interest, of approximately \$1,200 through September 2006; interest at 3.3%	<u>3,570</u> 1,160,024
Compensated absences	<u>81,422</u>
	<u>\$ 1,241,446</u>
Business-type activities:	
Revenue bonds:	
\$1,715,000 Water and Sewer Revenue Refunding Bonds, Series 1998 due in annual installments of \$115,000 to \$175,000 through July 2012; interest at rates varying from 4.8% to 5.2%	\$ 955,000
\$420,000 Water and Sewer Revenue Bonds, Series 2001 due in annual installments of \$40,000 to to \$50,000 through July 2011; interest at rates varying from 3.75% to 4.5%	275,000

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance <u>June 30, 2005</u>
Business-type activities:—Continued	
Revenue bonds:—Continued	
\$950,000 Electric System Revenue Bonds, Series 2002 due in annual installments of \$50,000 to \$85,000 through April 2017; interest at rates varying from 2.85% to 5%	\$ 805,000 <u>2,035,000</u>
Special assessment bonds:	
\$142,000 Special Assessment Bonds of 1998 due in annual installments of \$15,000 to \$20,000 through September 2007; interest at 4.4%	50,000
\$483,546 Special Assessment Bonds, Series 2004 due in annual installments of \$3,700 to \$77,700 through September 2013; interest at rates varying from 3.2% to 4%	483,546 <u>533,546</u>
Contractual obligations:	
\$5,165,000 obligation to Oceana County due in annual installments of \$285,000 to \$455,000 through November 2015; interest at rates varying from 3.5% to 4.85%	4,050,000
Installment purchase agreements:	
\$42,026 Note payable to bank due in semi-annual installments, including interest, of approximately \$4,600 through September 2006; interest at 3.5%	13,168
\$108,000 Note payable to bank due in annual installments, including interest, of approximately \$13,300 through September 2014; interest at 3.5%	108,000 <u>121,168</u>
Compensated absences	6,739,714 <u>64,636</u>
	<u>\$ 6,804,350</u>

The City's water and sewer bond rating is rated "below investment grade".

The general obligation and special assessment bonds are backed by the full faith and credit of the City.

The City was in compliance in all material respects with all the revenue bond covenants at June 30, 2005.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2005 follows:

Year ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 63,700	\$ 48,900	\$ 541,500	\$ 288,500
2007	62,500	46,200	552,600	266,900
2008	91,800	43,100	653,000	243,200
2009	71,800	40,000	648,400	216,100
2010	71,800	37,500	658,800	191,100
2011-2014	318,600	122,700	2,543,000	450,900
2015-2019	280,000	91,700	1,142,414	68,179
2020-2024	<u>199,824</u>	<u>20,397</u>	<u>-</u>	<u>-</u>
Total	\$ <u>1,160,024</u>	\$ <u>450,497</u>	\$ <u>6,739,714</u>	\$ <u>1,724,879</u>

NOTE I—BOND ISSUANCE COSTS

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Issuance costs (over 174 months)	\$ 35,912	\$ -	\$ -	\$ 35,912
Issuance costs (over 117 months)	<u>14,250</u>	<u>-</u>	<u>-</u>	<u>14,250</u>
	50,162	-	-	50,162
Less amortization				
over 174 months	3,643	2,429	-	6,072
over 117 months	<u>639</u>	<u>639</u>	<u>-</u>	<u>1,278</u>
	<u>4,282</u>	<u>3,068</u>	<u>-</u>	<u>7,350</u>
Total bond issue costs, net of amortization	\$ <u>45,880</u>	\$ <u>(3,068)</u>	\$ <u>-</u>	\$ <u>42,812</u>
Business-type activities:				
Water and Sewer				
Issuance costs (over 120 months)	\$ 22,006	\$ -	\$ -	\$ 22,006
Issuance costs (over 174 months)	140,230	-	-	140,230
Issuance costs (over 180 months)	114,277	-	-	114,277
Hydro				
Issuance costs (over 180 months)	<u>39,495</u>	<u>-</u>	<u>-</u>	<u>39,495</u>
Total bond issuance cost	<u>316,008</u>	<u>-</u>	<u>-</u>	<u>316,008</u>

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE I—BOND ISSUANCE COSTS—Continued

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2005</u>
Business-type activities:—Continued				
Less amortization:				
Water and Sewer				
over 120 months	\$ 6,601	\$ 2,200	\$ -	\$ 8,801
over 174 months	67,697	9,671	-	77,368
over 180 months	<u>22,854</u>	<u>7,618</u>	<u>-</u>	<u>30,472</u>
	97,152	19,489	-	116,641
Hydro over 180 months	<u>5,266</u>	<u>2,633</u>	<u>-</u>	<u>7,899</u>
	<u>102,418</u>	<u>22,122</u>	<u>-</u>	<u>124,540</u>
Total bond issuance costs, net of amortization	\$ <u>213,590</u>	\$ <u>(22,122)</u>	\$ <u>-</u>	\$ <u>191,468</u>

Amortization

Amortization expense has been charged to the following functions:

Governmental activities

Interest on long-term debt	\$ <u>3,068</u>
----------------------------	-----------------

Business-type activities:

Water and Sewer	\$ 19,489
Hydro	<u>2,633</u>
	<u>\$ 22,122</u>

NOTE J—OTHER INFORMATION

1. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

2. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE J—OTHER INFORMATION—Continued

3. Segment Information

	June 30, 2005		
	Water	Sewer	Combined
Condensed Statement of Net Assets			
Current assets	\$ 341,181	\$ 339,558	\$ 680,739
Capital assets, net	1,650,695	9,736,238	11,386,933
Other assets	<u>180,349</u>	<u>4,555,614</u>	<u>4,735,963</u>
Total assets	2,172,225	14,631,410	16,803,635
Current portion of long-term debt	10,500	473,600	484,100
Other current liabilities	14,041	60,711	74,752
Long-term liabilities, net of current portion of long-term debt	284,740	5,176,791	5,461,531
Advances from other funds	-	<u>249,482</u>	<u>249,482</u>
Total liabilities	<u>309,281</u>	<u>5,960,584</u>	<u>6,269,865</u>
Invested in capital assets, net of related debt	1,355,455	4,100,335	5,455,790
Restricted	-	270,562	270,562
Unrestricted	<u>507,489</u>	<u>4,299,929</u>	<u>4,807,418</u>
Total net assets	<u>\$ 1,862,944</u>	<u>\$ 8,670,826</u>	<u>\$10,533,770</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets			
Operating revenues	\$ 246,592	\$ 968,778	\$ 1,215,370
Operating expenses			
Administration and operations	188,822	868,884	1,057,706
Depreciation and amortization	<u>90,687</u>	<u>398,187</u>	<u>488,874</u>
Operating income (loss)	(32,917)	(298,293)	(331,210)
Nonoperating revenues (expenses)			
Special assessments	36,725	89,482	126,207
Investment earnings	3,177	186,863	190,040
Interest expense	(7,417)	(263,627)	(271,044)
Special item-loss on disposal of fixed assets	(26,664)	(8,595)	(35,259)
Transfers in and forgiveness of debt	<u>25,000</u>	<u>717,067</u>	<u>742,067</u>
Change in net assets	(2,096)	422,897	420,801
Beginning net assets	<u>1,865,040</u>	<u>8,247,929</u>	<u>10,112,969</u>
Ending net assets	<u>\$ 1,862,944</u>	<u>\$ 8,670,826</u>	<u>\$10,533,770</u>
Condensed Statement of Cash Flows			
Net cash provided by operating activities	\$ 50,039	\$ 86,868	\$ 136,907
Net cash provided by noncapital financing activities	20,872	203,583	224,455
Net cash used for capital and related financing activities	(4,847)	(457,090)	(461,937)
Net cash provided by investing activities	<u>3,177</u>	<u>186,863</u>	<u>190,040</u>
Net increase in cash and investments	69,241	20,224	89,465
Beginning cash and investments	<u>195,518</u>	<u>153,813</u>	<u>349,331</u>
Ending cash and investments	<u>\$ 264,759</u>	<u>\$ 174,037</u>	<u>\$ 438,796</u>

City of Hart
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2005

NOTE K—EMPLOYEE PENSION PLANS

1. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. The City does not contribute to the Plan.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

2. Defined Contribution Plan

The City provides pension benefits for all its full-time employees through a money purchase defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Salaried and hourly employees who have attained the age of 21 and have completed six months of service shall be eligible to participate in the plan. The City is required to contribute an amount equal to 4.5 to 5.0 percent of employee's annual compensation, depending on employee group. Employees are required to contribute 2 percent of annual compensation. Employees may also make additional voluntary contributions. The City's contributions for each employee (and earnings allocated to the employee's account) are vested after five years of service. Any forfeitures are reallocated to participants. Plan provision and contribution requirements are established and may be amended by the City Council.

For fiscal year 2005, the City's contribution to the defined contribution plan was \$30,489, and the employee contributions were \$14,418.

NOTE L—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 18 percent of General Fund revenues.

The City's Hydro and Water/Sewer Funds have a significant economic dependence on two local corporations that are major users of utility services. During the year ended June 30, 2005, the corporations' billings for utilities approximated 12 percent of total billings in the Hydro Fund and 55 percent of total billings in the Water/Sewer Fund.

NOTE M—SUBSEQUENT EVENTS

The City approved the purchase of a new police cruiser at the price of \$19,605. Delivery of the vehicle was made on September 7, 2005.

The City entered into a purchase agreement for a parcel of land for \$90,000. The sale was finalized in September 2005.

REQUIRED SUPPLEMENTAL INFORMATION

City of Hart
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2005

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 645,886	\$ 631,830	\$ 632,119	\$ 289
Licenses and permits	5,870	19,670	16,625	(3,045)
Intergovernmental revenues				
Federal	8,000	-	-	-
State	200,539	198,890	197,706	(1,184)
Local	8,100	2,100	37,149	35,049
Charges for services	215,289	245,360	189,764	(55,596)
Fines and forfeitures	2,450	8,270	8,196	(74)
Investment earnings	4,200	3,000	8,421	5,421
Other	1,570	9,680	11,082	1,402
Total revenues	1,091,904	1,118,800	1,101,062	(17,738)
EXPENDITURES				
Current				
General government	207,492	214,133	211,816	2,317
Public safety	434,821	457,923	455,465	2,458
Public works	232,851	249,028	243,918	5,110
Community and economic development	10,000	23,000	19,746	3,254
Culture and recreation	14,060	19,760	16,965	2,795
Debt service				
Principal	28,489	29,320	28,489	831
Interest and fees	4,371	3,540	4,388	(848)
Capital outlay	6,000	4,770	36,470	(31,700)
Total expenditures	938,084	1,001,474	1,017,257	(15,783)
Excess of revenues over (under) expenditures	153,820	117,326	83,805	(33,521)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	600	590	(10)
Transfers out	(106,081)	(179,940)	(106,081)	73,859
Proceeds from sale of fixed assets	-	700	706	6
Total other financing sources (uses)	(106,081)	(178,640)	(104,785)	73,855
Net change in fund balances	\$ <u>47,739</u>	\$ <u>(61,314)</u>	(20,980)	\$ <u>40,334</u>
Fund balances at July 1, 2004			<u>114,292</u>	
Fund balances at June 30, 2005			\$ <u>93,312</u>	

OTHER SUPPLEMENTAL INFORMATION

City of Hart
BALANCE SHEET
Other Governmental Funds
June 30, 2005

	Total other governmental funds	Special Revenue					Capital Projects				Debt Service	
		Major Street	Local Street	Park	Woodlawn Street Special Assessment	Solid Waste Alternative Program	Street Improvements	Enterprise Drive	Creeks Drive	Building Authority- Library	1993 MTF Bonds Debt Retire	Library Debt
ASSETS												
Cash and investments	\$ 135,592	\$ 1,357	\$ 126	\$ 42,125	\$ 310	\$ 40,716	\$ 16,103	\$ 10,519	\$ -	\$ 2,701	\$ 16,963	\$ 4,672
Receivables												
Accounts	3,023	-	-	3,023	-	-	-	-	-	-	-	-
Special assessments	170,133	-	-	-	934	-	-	13,039	156,160	-	-	-
Due from other governmental units	39,274	19,211	10,062	-	-	-	-	-	-	10,001	-	-
Total assets	<u>\$ 348,022</u>	<u>\$ 20,568</u>	<u>\$ 10,188</u>	<u>\$ 45,148</u>	<u>\$ 1,244</u>	<u>\$ 40,716</u>	<u>\$ 16,103</u>	<u>\$ 23,558</u>	<u>\$ 156,160</u>	<u>\$ 12,702</u>	<u>\$ 16,963</u>	<u>\$ 4,672</u>
LIABILITIES AND FUND BALANCES (DEFICITS)												
Liabilities												
Accounts payable	\$ 10,001	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,001	\$ -	\$ -
Due to other funds	2,500	-	2,500	-	-	-	-	-	-	-	-	-
Deferred revenue	190,066	-	-	20,400	467	-	-	13,039	156,160	-	-	-
Advances from other funds	43,674	-	-	-	-	-	-	-	43,674	-	-	-
Total liabilities	246,241	-	2,500	20,400	467	-	-	13,039	199,834	10,001	-	-
Fund balances (deficits)												
Reserved for:												
Debt service	21,635	-	-	-	-	-	-	-	-	-	16,963	4,672
Capital projects	29,323	-	-	-	-	-	16,103	10,519	-	2,701	-	-
Unreserved	50,823	20,568	7,688	24,748	777	40,716	-	-	(43,674)	-	-	-
Total fund balances (deficits)	101,781	20,568	7,688	24,748	777	40,716	16,103	10,519	(43,674)	2,701	16,963	4,672
Total liabilities and fund balances	<u>\$ 348,022</u>	<u>\$ 20,568</u>	<u>\$ 10,188</u>	<u>\$ 45,148</u>	<u>\$ 1,244</u>	<u>\$ 40,716</u>	<u>\$ 16,103</u>	<u>\$ 23,558</u>	<u>\$ 156,160</u>	<u>\$ 12,702</u>	<u>\$ 16,963</u>	<u>\$ 4,672</u>

City of Hart
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
Governmental Funds
For the year ended June 30, 2005

	Total other governmental funds	Special Revenue					Capital Projects				Debt Service	
		Major Street	Local Street	Park	Woodlawn Street Special Assessment	Solid Waste Alternative Program	Street Improvements	Enterprise Drive	Creeks Drive	Building Authority- Library	1993 MTF Bonds Debt Retire	Library Debt
REVENUES												
Property taxes	\$ 70,897	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70,897	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues												
State	145,777	101,176	44,601	-	-	-	-	-	-	-	-	-
Local	75,153	-	-	-	-	-	-	-	-	55,727	-	19,426
Charges for services	73,913	-	-	73,913	-	-	-	-	-	-	-	-
Investment earnings	1,538	34	2	333	84	384	158	-	-	266	235	42
Other	34,774	-	-	-	467	11,259	-	6,367	-	16,681	-	-
Total revenues	402,052	101,210	44,603	74,246	551	11,643	71,055	6,367	-	72,674	235	19,468
EXPENDITURES												
Current												
Public works	154,188	80,418	71,072	-	-	1,456	-	-	1,242	-	-	-
Culture and recreation	68,726	-	-	68,726	-	-	-	-	-	-	-	-
Debt service												
Principal	55,000	-	-	-	-	-	-	-	-	-	20,000	35,000
Interest and fees	50,505	-	-	-	-	-	-	7,093	-	-	4,060	39,352
Capital outlay	182,789	-	-	-	-	-	401	67,284	97,432	17,672	-	-
Total expenditures	511,208	80,418	71,072	68,726	-	1,456	401	74,377	98,674	17,672	24,060	74,352
Excess of revenues over (under) expenditures	(109,156)	20,792	(26,469)	5,520	551	10,187	70,654	(68,010)	(98,674)	55,002	(23,825)	(54,884)
OTHER FINANCING SOURCES (USES)												
Transfers in	163,486	-	30,000	-	-	-	-	-	55,000	-	24,060	54,426
Transfers out	(117,083)	(5,000)	-	-	(590)	-	(2,067)	(55,000)	-	(54,426)	-	-
Forgiveness of debt	14,054	-	14,054	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	60,457	(5,000)	44,054	-	(590)	-	(2,067)	(55,000)	55,000	(54,426)	24,060	54,426
Net change in fund balances	(48,699)	15,792	17,585	5,520	(39)	10,187	68,587	(123,010)	(43,674)	576	235	(458)
Fund balances (deficits) at July 1, 2004	150,480	4,776	(9,897)	19,228	816	30,529	(52,484)	133,529	-	2,125	16,728	5,130
Fund balances (deficits) at June 30, 2005	<u>\$ 101,781</u>	<u>\$ 20,568</u>	<u>\$ 7,688</u>	<u>\$ 24,748</u>	<u>\$ 777</u>	<u>\$ 40,716</u>	<u>\$ 16,103</u>	<u>\$ 10,519</u>	<u>\$ (43,674)</u>	<u>\$ 2,701</u>	<u>\$ 16,963</u>	<u>\$ 4,672</u>

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 21, 2005

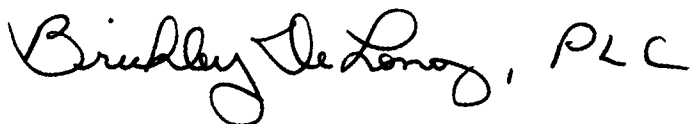
City Council
City of Hart
Hart, Michigan

In planning and performing our audit of the financial statements of the City of Hart for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Hart's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe recommendation 1 on the attached summary is a material weakness.

This report is intended for the information of the City of Hart, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

MATERIAL WEAKNESS

We consider the following material weakness contained in our October 4, 2004 letter as still applicable:

Recommendation 1: Bank reconciliations should be reconciled to the general ledger on a monthly basis.

During our testing, we noted that monthly bank reconciliations were not reconciled to the general ledger in a timely manner.

Reconciliations for all bank accounts should be reconciled to the general ledger on a monthly basis. This procedure is essential to provide accurate interim financial statements.